FINAL TRANSCRIPT

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PRESENTATION

Operator

Good morning, and welcome to the Centex Corporation fiscal year 2008 fourth quarter earnings conference call with senior management. Today's call will be recorded and transcribed. Today's call will also be simultaneously webcast at ir.centex.com.

A copy of today's presentation was filed last night with the SEC on Form 8-K. A link to that document is now available on that Web site.

Centex wishes to emphasize to everyone listening on the call and via the Internet that certain statements made during the course of this call are forward-looking. These statements are not guarantees of future performance and are subject to significant risk and uncertainties that could cause actual results to differ materially from those discussed during the call.

For further information regarding these risks and uncertainties and Centex' forward-looking statements please refer to the forward-looking statements disclosure in the presentation and to Centex' reports on Forms 10-K and 10-Q filed with the SEC. All participants will be in a listen-only mode.

There will be a question-and-answer session after management's remarks. (OPERATOR INSTRUCTIONS) In the interest of time, we will limit each person to one question and one follow-up question. If you have additional questions following today's call, please contact Matt Moyer, Vice President, Investor Relations, at 214-981-5000.

I will now turn the call over to Tim Eller, Chairman and CEO. Please go ahead, sir.

Timothy Eller - *Centex Corporation - Chairman, CEO*

Thank you, Janice. Good morning, everyone. Thanks for joining us for our fiscal year 2008 fourth quarter conference call. With me today is Cathy Smith, our Chief Financial Officer; Mark Kemp, our Chief Accounting Officer; and Matt Moyer, head of Investor Relations.

I'll start our call today with some introductory comments on the quarter and the past year as well as a few thoughts about the months ahead. Next, Cathy will provide details about our financial performance for the quarter and year. Then I'll offer some closing comments and we'll take your questions.

Turning to slide 3 on the webcast, we accomplished important goals and fulfilled key commitments in what's turning out to be the worst housing market in decades. Our teams in the field worked hard to accelerate sales and reduce inventory levels ahead of foreclosures. We sold nearly 6,700 homes in the quarter, down 15% from a year ago, but down only 5% per neighborhood which is noteworthy in this environment.

These sales efforts, coupled with our transition back to a model of selling homes before we build them, led to a reduction in unsold inventory of 64% from last year to less than three homes per neighborhood. To some extent this inventory reduction was achieved at the expense of margins. However, we believe this was a prudent decision considering the foreclosures that are now hitting the existing home resale market nationwide and the weakening economy.

We also took significant steps to improve our balance sheet. We generated more than $775 million in cash flow from home building operations in the quarter. We further strengthened our cash position by selling non-core land and neighborhood assets. In doing so, we shortened our total lot position by 45% from last year and by 70% from our peak supply of land just two years ago.

We also sold a non-core business, HomeTeam Pest Defense, for $135 million. And we reduced our home building debt obligations by almost $800 million during the year and had no borrowings on a revolving credit line at March 31. While operating earnings deteriorated throughout the year we believe these actions position to us continue to build an even stronger cash position and to restore profitability in the future.

Continuing on slide 4, we expect the housing market to remain weak. Foreclosures hitting the existing home resale market will likely get worse. This will keep the existing home inventory high and continue the pressure on home prices. Economic conditions and employment growth are both weakening. Buyer confidence is low and credit underwriting standards continue to tighten. But, affordability is improving, and dramatically so in some markets.

At Centex we're continuing to underwrite more of our home buyers with FHA loans and the increased mortgage limits for FHA should provide a positive boost for the industry.

Turning to slide 5, in this environment, we're working to aggressively build a better Centex. Restoring profitability is our top priority. Our divisions are committed to achieving profitability neighborhood by neighborhood, market by market. Each quarter, Cathy and I, along with our market leaders, review the financial performance of each of our neighborhoods to determine the best approach for every asset. With foreclosures rising and a weaker economy, all markets are affected now to one degree or another.

However, having just completed the reviews, our sense is there is probably more in-home price declines behind us, at least for Centex, than ahead of us. Further, the incentives and discounts that were necessary for us to clear inventory this quarter should diminish due to the stabilizing effect of transparent pricing and selling to a backlog. We're also concentrating our focus on and within core markets.

Our neighborhood footprint will concentrate in markets that provide the best future returns, which are defined by the most profitable consumer segments, products, and geographies that fit our pre-sale and production model. This concentration was accelerated through the sale of a number of land and neighborhood properties which we previously announced.

We expect our total neighborhood count to continue to fall in fiscal '09 as we build through existing assets and await the correction in the land market. We expect strong cash flow generation again in fiscal 2009 which will further strengthen our cash position. By the end of June, we expect cash on hand to exceed $1 billion, due in part to a tax refund and the proceeds from the sale of HomeTeam Pest Defense which closed in early April.

Turning to slide 6, we're also working aggressively to build a better Centex for the long term. During the quarter, we essentially completed our transition to a Company focused on home building. Centex is well positioned to take advantage of the considerable opportunities that will be created in this cycle and to emerge in a stronger competitive position. We intend to achieve higher asset efficiency in the future through a more flexible land position.

We're working quickly to improve our core business processes of selling and building homes, and we're increasing our relative share and strength in the markets that offer the best returns. We're confident that these efforts will result in sustainable cost reductions and higher, more consistent returns in the future. In fiscal 2008, we accomplished important goals in a difficult operating environment.

We fully expect this housing correction to continue through fiscal 2009. But we're intent on restoring profitability. We're working aggressively every day to build a better Centex, both in the current environment and for the long term. With that, I'll turn it over to Cathy to take us through some of the specifics for the quarter.

Cathy Smith - *Centex Corporation - CFO*

Thanks, Tim. Good morning, everyone. Turning to slide 7, for the fiscal year, we delivered on key commitments. We generated more than $550 million of home building operating cash flow. On a total Company basis, including financial services, we generated closer to $1.5 billion. It was our second straight year of positive operating cash flow.

We aggressively sold homes throughout the year. We sold nearly 25,000 homes, averaging over 2,000 sales per month. We made the decision to reduce our unsold inventory, get ahead of foreclosures, and generate cash. Sequentially from December to March we reduced our unsold inventory by 59% to less than three per neighborhood. This year we've made huge strides toward a more asset-light business model resulting in a reduction of more than 70,000 owned lots. We now own 70,000 lots and have 18,000 lots controlled.

Sequentially, our total lot position is down by nearly 25%. We accomplished this large reduction in a couple of ways. We aggressively sold inventory, and we sold non-core land. While we delivered on key commitments, we were not profitable. But we've made progress to close the gap.

We now have fewer employees per closing than at any point in the past nine years. Our overhead per closing fell another 9% year-over-year, and we continued to work hard with our partner vendors to reduce costs and increase efficiencies. We know we're achieving solid reductions in our direct construction costs. On a per-closing basis, direct construction costs did come down again this quarter. However, the more significant reductions we're realizing on new starts didn't fully show up in the Q4's closed units.

A large portion of the closings in the quarter had been started and completed in earlier periods. We've made a lot of progress, are doing much more to improve profitability. I'm confident our efforts on business process improvements will produce a lower sustainable cost structure. I'm also confident these efforts will begin to result in higher margins and faster asset turns in fiscal 2009 and beyond.

Slide 8 provides the details around the home building operations for the fourth quarter. We closed 7,100 homes in the quarter, 33% lower than last year. The average price of homes closed in the quarter declined 15% to $268,000. This is a direct result of our focus on addressing affordability and our aggressive reduction in unsold inventory. With that largely behind us, and our transition to a transparent pricing strategy, I expect our sales incentives and discounts to moderate in the coming fiscal year.

This quarter our sales discounts and incentives were 14.2% of the average selling price, down from 15.2% last year, last quarter, marking the first sequential decrease in over three years. In the quarter, our gross margin was 7.7%, down 1,000 basis points. We sold and closed more than 2,500 homes that were standing inventory at the beginning of the quarter. Many of these homes had old material and labor costs.

Today I'm seeing evidence that if we sell homes before construction starts, they have materially higher gross margin. This gives me confidence that as we move to a pre-sale model, margins should improve. I know we're making solid progress on the cost front, as pricing pressure abates, we will return to profitability as soon as possible. Our intensity and urgency remain high on this front.

On a pre-tax basis, we recorded $333 million in impairments and optional walk-away costs this quarter. We recorded JV impairments of $12 million and a goodwill impairment of $17 million. The impairments were concentrated in California and Florida. We also recognized a loss of $395 million related to the previously announced large land sale completed in the quarter. We impaired 94 neighborhoods this quarter, 47 of which had been previously impaired. This brings our total impaired neighborhood count to about a third of our active and inactive neighborhoods.

We take a consistent, methodical approach to land valuation. We recognize this is a dynamic environment. We'll continue to take the same disciplined approach to valuing our assets each quarter. Along with the impairment analysis, it's essential to assess each neighborhood for positive incremental cash flow. We evaluate every asset, every quarter, to make sure we have the right strategy for that particular asset.

We assess whether the highest return is to sell, build through, or hold. We're still finding that the best answer most of the time is to continue to build through our assets. More importantly, this will leave us with a lean balance sheet and an opportunity to add faster turning, higher producing assets in the future.

Turning to backlog, our backlog of homes sold now stands at 7,746 units, with a total value of $2 billion. Year-over-year, our backlog was down 27% on a unit basis. The right level of backlog will be increasingly important to us. Creating a sold backlog allows us to build to a cadence. Building to a cadence using standardized business processes yields operating efficiencies and more predictable results, and pre-selling a backlog is essential to our asset-light business model. We're moving rapidly in this direction.

With the spec unit reduction largely complete, and as we transition to a pre-sold model, we expect lower backlog conversion over the next couple of quarters.

Let me take a few minutes to review the regional results. Slide 9 details sales and closings by region. In the quarter, we sold 6,693 homes, down 5% on a per-neighborhood basis. This is an annual rate of 43 per neighborhood, above our goal of 36 per neighborhood per year. Our cancellation rate continues to fall, at 29% it's the lowest in over a year.

As to regional color, let me sum it up in five words. There are no markets improving. In our East region, sales were down 4%. Sales per neighborhood were up 6%. Charlotte and Raleigh-Durham were the lone bright spots, while D.C. Metro appears to have slowed again.

Our sales in the Southeast were up 5%, and up 6% on a per neighborhood basis, as our transparent pricing strategy produced good sales volume on a relatively easy year-over-year comparison. Texas has definitely cooled off, although our central Texas operations are still doing relatively well. The Southwest region, including Phoenix, Las Vegas, and Inland Empire, are the markets impacted the hardest by foreclosures and sales reflect that.

Our Northwest region experienced a 6% gain in sales per neighborhood, led by Seattle and Sacramento. Year-over-year closings were down across the board reflecting the soft market environment and the reductions in neighborhoods.

Moving to slide 10, throughout the fiscal year we strengthened our cash position and we lowered home building debt, both senior notes and joint venture debt, by almost $800 million. At 3/31 we had only 13 JVs with debt totaling less than $200 million. On the cash front we generated positive home building operating cash flow this quarter in excess of $775 million.

We now expect our total cash balance to exceed $1 billion by the end of the June quarter. The increase is largely due to our anticipated $600 million tax refund and the proceeds from the sale of our Pest Defense business. We have no debt maturities this quarter. Additionally, we amended our credit agreement and we don't expect to have any borrowings against our credit facility this year.

Furthermore, we expect the home building operations to be roughly cash neutral in the June quarter for the first time in over a decade. This would represent an improvement of over $600 million in operating cash flow compared to the same period last year. A smoother, more predictable cash flow stream is another benefit to our sell then build model.

We're not giving guidance. However, I can say that our total land spend, including acquisition, development, and JV commitments in fiscal 2009, will be less than half of last year's $1.7 billion, given current market conditions. I'm confident we should be operationally cash flow positive for the third straight fiscal year in 2009.

Also in the quarter we recorded a $330 million increase to our valuation allowance related to our deferred tax assets in accordance with FAS 109, accounting for income taxes. Our total valuation allowance is now $830 million. It's important to note there is still not a lot of predictability in the industry right now.

In our financial services segment, we recorded a $54 million provision for losses on our portfolio of discontinued loans. The portfolio now has a reserve balance of 55% of net book value which is approximately $150 million.

In all, we did what we needed to do in the fourth quarter, and fiscal year. We sold homes, generated cash, and structured for profitability. We remain focused on these near-term goals while positioning Centex to take advantage of future opportunities.

Turning to slide 11, I will comment on what we're doing to restore operational profitability. Selling a home and then building it is key to restoring profitability. We benefit with lower material and labor costs and improved employee productivity. Gross margins tend to be significantly higher and cancellation rates lower when we sell a home before construction is started.

At this point, we have 72% of our September quarter projected closings already in backlog versus 53% at the same time last year. This should result in lower costs, better predictability, and better asset utilization. Additionally, as we improve all of Centex's core business processes, our operating margins will increase. We've made substantial progress this past year on this front, and expect to make more meaningful progress in fiscal 2009.

We remain highly focused on overhead cost reductions. We were down 12% per closing in 2008. And we expect to be down again in fiscal 2009. We continue to concentrate our neighborhood footprint.

We're exiting some markets, making some divisions satellites of others, and rapidly moving out of underperforming assets. Our average neighborhood count was down 10% in fiscal 2008, and I expect it to shrink again this year. Another key to achieving normalized margins will be reinvesting in land assets with better economics.

We've positioned ourselves to take advantage of land and lot opportunities on an asset-light basis when the land markets adjust. We're doing much inside our Company today to ensure we have a leading cost structure now and even more importantly, in the future. I will now turn the call back over to Tim for his concluding remarks.

Timothy Eller - *Centex Corporation - Chairman, CEO*

Thanks, Cathy. Centex accomplished important goals for fiscal 2008. We accelerated our sales of homes ahead of foreclosures and significantly reduced our unsold inventory, generated strong cash flow from home building operations, we lowered our debt obligations and substantially shortened our land position.

I'd like to thank and congratulate the hard working employees of Centex for their focus and diligence throughout a very tough fiscal 2008. We expect this correction to continue this next fiscal year. Foreclosures will continue to pressure most markets. Economic conditions are weakening.

In this difficult environment, we're continuing to execute our plan for aggressively building a better Centex. Restoring profitability is a top priority. Looking ahead, we're also building a better Centex for the long term by focusing on asset efficiency and a more flexible land position.

Internally, we're improving our core Centex business processes. We're gaining relative share and strength in important markets. Together, we believe all of these actions will result in sustainable cost reductions that yield higher, more consistent returns.

Now Janice, let's address the questions.

QUESTIONS AND ANSWERS

Operator

At this time we will begin taking questions. (OPERATOR INSTRUCTIONS) Our first question comes from the line of Nishu Sood with Deutsche Bank.

Nishu Sood - *Deutsche Bank - Analyst*

Thanks, and good morning, everyone.

Cathy Smith - *Centex Corporation - CFO*

Good morning, Nishu.

Timothy Eller - *Centex Corporation - Chairman, CEO*

Good morning.

Nishu Sood - *Deutsche Bank - Analyst*

First of all, impressive job on the cash flow generation.

Timothy Eller - *Centex Corporation - Chairman, CEO*

Thank you.

Cathy Smith - *Centex Corporation - CFO*

Thank you.

Nishu Sood - *Deutsche Bank - Analyst*

First question I wanted to ask was, you've continued to exit markets, I think Michigan was most recent. But with the strong cash position you've built up clearing out your spec inventories, kind of beginning to look ahead to when markets do ultimately begin to recover, I just wanted to get your sense of what that might look like?

Is that going to be revisiting markets that you have been exiting over the last few quarters or is that going to be focused on building more relative share in the markets that you are now left in?

Timothy Eller - *Centex Corporation - Chairman, CEO*

Thank you, Nishu. Good question. It's absolutely focused on building relative share in what we're defining as our core markets. So we will not be revisiting the markets we've exited. We will be focusing on the markets for the future.

Nishu Sood - *Deutsche Bank - Analyst*

Okay, and second question, I just wanted to ask was on the mortgage write-downs. Couple quarters ago, obviously, you started off with a substantial write-down in that construction to perm portfolio. Would have thought that that would have been the end of it, but we've seen a couple more charges there. Just wanted to understand fundamentally what's going on that is causing you to continually reevaluate and rewrite down that portfolio?

Cathy Smith - *Centex Corporation - CFO*

Hi, Nishu, it's Cathy. We're now reserved at 55% of the net book value of all of those discontinued loans. We are, I would say, obviously, adequately reserved there.

As we've watched those loans, you remember that they are a construction loan that we start at the beginning of the build of that home, it was a unique product, and then we modified at the end. So it takes time for those to continue to modify out. As we do we're finding either there's not a market for that loan product and we have to fit it into a product that's there, or we're seeing that there was good concentration in California and Florida, that those markets aren't performing well. But again, we're adequately reserved at 55% of that total net book value. The total net book value is 150. So I think it's bounded.

Nishu Sood - *Deutsche Bank - Analyst*

So we're probably seeing the end of that?

Cathy Smith - *Centex Corporation - CFO*

I can never say that we're at the end, but what I would say is that, again, at 55% of the total net book value and the total net book value is 150, I think we can fairly well bound it.

Nishu Sood - *Deutsche Bank - Analyst*

Okay, I'll get back in the queue again. Thanks.

Operator

Your next question comes from the line of Stephen East with Pali Capital.

Stephen East - *Pali Capital - Analyst*

Good morning, everybody.

Cathy Smith - *Centex Corporation - CFO*

Good morning.

Timothy Eller - *Centex Corporation - Chairman, CEO*

Stephen.

Stephen East - *Pali Capital - Analyst*

First question centers around the specs and the order rate. About one-third of your orders were specs in this quarter. If we look at what the gross margin would be, factoring those out, how much did that impact your gross margin and how should we look at specs as a percentage of closings over the next quarter or two?

Cathy Smith - *Centex Corporation - CFO*

Well, specs will continue to come down as we move -- transition our model to that sell then build model. So the only thing we should be left with in the future with regards to spec inventory would be really only cancellations. We also know cancellation rates tend to be much lower on a pre-sold home before we build it.

So spec units will continue to come down. And as you know, we're now at the lowest level that we've seen in a long, long time at less than three per neighborhood. With regards to gross margins, many of those 2,500 homes that we sold this last quarter were completed in previous quarters, and they did have older material and labor costs included in them. So gross margins will improve.

Stephen East - *Pali Capital - Analyst*

Okay. And then if you just look at your cash flow expectations, as we move throughout the year, and I know you're not giving an actual forecast, but it sounds like if you're positive in the June quarter, you will probably be at least moderately positive virtually all the quarters?

Cathy Smith - *Centex Corporation - CFO*

Yes, as we said, we expect to be roughly cash neutral in the June quarter from operations, which is substantially improved over our past several years, and for the whole year we don't ever expect to be in our credit facility.

Stephen East - *Pali Capital - Analyst*

Okay. Thanks.

Operator

Your next question comes from the line of Carl Reichardt with Wachovia.

Carl Reichardt - *Wachovia Securities - Analyst*

Good morning, guys. How are you?

Cathy Smith - *Centex Corporation - CFO*

Good morning, Carl.

Carl Reichardt - *Wachovia Securities - Analyst*

This 70,000 lots that you own, and I can't recall, I think you guys don't include homes in the air in that 70,000 lots. I think that's right.

Timothy Eller - *Centex Corporation - Chairman, CEO*

Correct.

Carl Reichardt - *Wachovia Securities - Analyst*

Okay, what percentage of the 70,000 lots would you say are finished lots as opposed to requiring additional development dollars?

Cathy Smith - *Centex Corporation - CFO*

About 50% are finished.

Carl Reichardt - *Wachovia Securities - Analyst*

About 50% finished. Okay, great. Tim, could you give a little more color on the metro market shrinkage? Nishu mentioned Michigan. We know about that one. What's your total metro count now as you look at it, and where can we expect that to go? What are the markets you're planning on concentrating on? Can you give us a little more color there?

Timothy Eller - *Centex Corporation - Chairman, CEO*

We've announced that we're exiting Jacksonville, Columbus and Detroit. We're continuing to evaluate a number of other markets. But really the markets we're going to focus on are those that are going to have the best dynamics for economic growth and for our business model for the future.

And that means that a ready predictable supply of land, certainly employment growth, and ready, predictable supply of land that we can execute a pre-sale model on, and asset efficient and lightweight. So we believe certainly there's 30 markets available for us to do that.

Carl Reichardt - *Wachovia Securities - Analyst*

Okay, that helps a lot. I'll get back in queue. Thanks much.

Operator

Your next question comes from the line of David Goldberg with UBS.

David Goldberg - *UBS - Analyst*

Thanks. Good morning.

Cathy Smith - *Centex Corporation - CFO*

Good morning.

David Goldberg - *UBS - Analyst*

I was wondering kind of bigger picture as you guys go to the asset-light model, and you think about that, in the near term, you're going to be buying more finished lots. How long is it going to take you to take those finished lots and actually make them buildable?

Is there a delay to get final permitting on this stuff? I guess with that, when you think longer term who is going to be owning the land that's going to be delivering the land to you and what kind of returns are they going to require on that land, and do you think that's a sustainable model in, let's say, 50%, 70%, 80% of your markets, something like that?

Timothy Eller - *Centex Corporation - Chairman, CEO*

Those are good questions, and they don't have finite answers right at the moment. The land has not corrected yet. The land is largely in the hands of private developers, and those private developers have bank borrowings against that land, and we're finding now that the land and the lots are going back to banks.

There's thousands and thousands of developed lots in virtually every market with the highest being Atlanta at about 145,000 vacant developed lots. Phoenix has nearly 90,000, or 60,000. Even Dallas-Fort Worth has maybe as many as 90,000 vacant developed lots. So the supply will be there for sometime to come.

We believe it needs to go back to the banks. We're already beginning to work with banks on securing some land positions for the future, but of course that's going to be a process that takes some time, and we expect the latter half of this year. Longer term what we find is there's a lot of capital, still private capital mostly, that is looking to provide development services for the industry.

So time will tell whether or not that capital will actually be put to work in that endeavor, but we're finding those two opportunities for the future.

Cathy Smith - *Centex Corporation - CFO*

Hey, to answer your question, David, about how quickly we can put a home on a finished developed lot, it does vary, but some of them truly come completely finished and some require a little bit of effort, but they can be very, very short turns on some of the finished developed lots.

And then your other question about how many of the markets would have access to vacant developed or finished developed lots, not all of our markets will be able to have as big an access long term. However, as Tim said, almost all the markets have some now.

David Goldberg - *UBS - Analyst*

Is it safe to say, then, that it's going to be acquiring more in a smaller communities, maybe 50, 100 lots at a time versus bigger communities moving forward because that's going to be where a lot of the opportunities come from the banks?

Timothy Eller - *Centex Corporation - Chairman, CEO*

Well, the banks have a variety of land positions from small to large, and I think the beauty of our business model that we're moving towards would allow to us participate in both.

David Goldberg - *UBS - Analyst*

Then if I could just get a follow-up, Cathy, something that you said about the amount of discounts and incentives that are being offered, and that coming down. I think you said to 14.2% from 15.2%?

Cathy Smith - *Centex Corporation - CFO*

Right.

David Goldberg - *UBS - Analyst*

Was that conscious choice? If you had been at 15.2%, had you kind of held steady the amount of discounting that you were doing, do you think you would have achieved a different sales rate? And I guess with that, how does transparent pricing play into that?

Cathy Smith - *Centex Corporation - CFO*

The end of your question is really the answer. It's a conscious decision, and part of our plan, as we have moved to transparent pricing. And at transparent pricing is essential as we want to start moving to selling to a backlog so we can build to a cadence, so we can get those production efficiencies. It's all part of our plan.

The majority of our markets have been able to achieve transparent pricing, and as we've explained, that's how we get to transparent pricing is we do a lot of work around what the buyers can afford, what mortgage rates they can qualify, how much the market needed to adjust, and we set a base price with very limited discounts and incentives, and then we can stick to that price and more successfully sell to a backlog.

We had to do a couple things to accomplish that which was getting through a large number of our spec units which we did this last quarter, and then transition our markets there. So we've done that very successfully now. So discounts should continue to come down.

Remember what you saw in this last quarter were the closed units which as we talked about, many of those were sold and closed in previous quarters as well.

David Goldberg - *UBS - Analyst*

So it's fair to say that sequential decline has as much to do with the denominator going down as does it the numerator maybe going up?

Cathy Smith - *Centex Corporation - CFO*

Yes.

David Goldberg - *UBS - Analyst*

Great, thanks so much.

Operator

Your next question comes from the line of Ivy Zelman with Zelman & Associates.

Allen Ratner - *Zelman & Associates - Analyst*

Good morning, guys. It's actually Allen on for Ivy. When I'm looking at your upcoming debt maturities over the next few years you have about $675 million of public debt coming due over the next three years, and really a steady flow of maturities over the next eight years or so.

And I believe last quarter you indicated you were planning on paying down about $200 million of JV debt as well on top of that. So my question is, with all of these maturities coming due, would you consider raising additional equity in order to opportunistically take advantage of some of these land deals that you foresee coming to the market in the next few quarters or couple of years even?

Timothy Eller - *Centex Corporation - Chairman, CEO*

Let me just respond to how we might take advantage of the land deals and what we're seeing and believe will happen for quite some time is the ability to do it in a very soft, very structured take-down manner. So we won't need to commit a lot of capital to acquire a lot of land.

This is very typical in these cycles. Coming out of the last cycle it was very typical, and so we're fairly -- we're very confident that we'll be able to preserve a lot of our cash and still take advantage of the land market.

Allen Ratner - *Zelman & Associates - Analyst*

So you expect to, at least lacking forward over the next of couple years, to be able to fund the maturities with cash on hand plus any cash you generate from the operations?

Cathy Smith - *Centex Corporation - CFO*

That's exactly right.

Allen Ratner - *Zelman & Associates - Analyst*

Okay, great. Could I just get an update on the status of your JV debt? I think last quarter, Cathy, you gave some good color on how much debt was outstanding in the ventures and how much you expected to repay?

Cathy Smith - *Centex Corporation - CFO*

Right now we have, we did some great work this last quarter and throughout this last year we reduced $200 million of JV debt. We're now down to less than -- we have 13 JVs with debt, and they have debt of less than $200 million. Over the course of the next 12 months about half of that naturally matures, and then the remainder goes into '10 and '11.

Allen Ratner - *Zelman & Associates - Analyst*

Okay, great. And if I could sneak in one follow-up, back to the paying down the debt question, have you received any feedback or in terms of maybe just the industry in general, what is the ability to tap your revolver in order to pay down public debt? We've heard some conflicting messages there, whether that's something that the banks would be agreeable to or give any issue to?

Cathy Smith - *Centex Corporation - CFO*

You know, I can't really respond on that. We don't intend -- we won't need to do that. We don't intend to have to use our revolver at all this year. We should be out of it, out of our revolver, given our significant cash position and the continued cash that we're going to generate.

Allen Ratner - *Zelman & Associates - Analyst*

Okay, great, thanks a lot, guys.

Operator

Your next question comes from the line of Megan McGrath with Lehman Brothers.

Megan McGrath - *Lehman Brothers - Analyst*

Hi, good morning.

Cathy Smith - *Centex Corporation - CFO*

Good morning.

Timothy Eller - *Centex Corporation - Chairman, CEO*

Good morning.

Megan McGrath - *Lehman Brothers - Analyst*

You talked a lot in your initial comments about the impact of foreclosures in particular markets. I wonder if you could follow-up on the other side of things and talk about the sort of opportunities or difficulties presented when smaller, private builders are actually starting to go bankrupt?

Timothy Eller - *Centex Corporation - Chairman, CEO*

Well, actually what we're finding is that's occurring with ever increasing frequency in many markets. Certainly, most if not all of the market that were early into the cycle we're seeing that. Consequence for us is that it reduces capacity, reduces active neighborhoods. It makes the market feel better for us. While the overall numbers may not be increasing, it feels like it is to us so our sales actually improve.

Our pricing power is supported better. With he don't have -- put it this way. We don't have the negative pricing pressure. We actually have -- we're able to sustain prices in that environment. We see that happening more and more and more.

We see it's going to take, again, some time for the banks to take these assets, and get them back into the market. But it's overall a positive situation for us.

Megan McGrath - *Lehman Brothers - Analyst*

Does it not put any incremental pricing pressure in a market if, say, a community is half finished and they try to finish it out to generate that cash?

Timothy Eller - *Centex Corporation - Chairman, CEO*

There's very little inventory of vacant developed houses that would cause that issue. And the lots will go back to the bank and it remains to be seen how the banks will actually deal with land that they'll take back.

But what we're hearing more and more is that they'll tend to try to work it out rather than flood the market with lots. Either way, it will work to our benefit.

Cathy Smith - *Centex Corporation - CFO*

Megan, generally the privates don't have a lot of standing inventory because the banks won't loan against the direct construction costs. They'll usually loan against the land only, so that won't impact us as much either.

Megan McGrath - *Lehman Brothers - Analyst*

That's great color. One quick follow-up. You mentioned that you thought that the majority of ASP declines were behind you. We've heard a lot of comments from some of your competitors over the past couple of weeks around whether write-downs are, the majority is behind you. I don't know if you care to comment and weigh in on that?

Timothy Eller - *Centex Corporation - Chairman, CEO*

Well, price is one of the biggest determinants in terms of impairment, so we would be hopeful that the bulk of that is behind us as well.

Megan McGrath - *Lehman Brothers - Analyst*

Great. Thank you.

Operator

Your next question comes from the line of Michael Rehaut with JPMorgan.

Michael Rehaut - *JPMorgan - Analyst*

Hi, thanks. Good morning.

Cathy Smith - *Centex Corporation - CFO*

Good morning.

Michael Rehaut - *JPMorgan - Analyst*

First question, just on the transparent pricing. You had mentioned that no markets right now are showing signs of improving. You did, however -- you were able to get some -- what I'd call at least better than corporate average orders in the East and the Southeast, and you had mentioned that part of that was due to implementing the transparent pricing.

So the question that I have is, A), can you give us a sense when you put that transparent pricing mechanism into place? Because I think you had also said that you really weren't able to do it until you flushed out a lot of the specs in those markets. That's my first question.

Timothy Eller - *Centex Corporation - Chairman, CEO*

For the most part, we transitioned to transparent pricing at the first of the calendar year. Some divisions were earlier than that, some divisions were a bit later than that, but roughly that's the point. So we'll begin to see those closings come through starting with this first quarter and then really mostly in the second quarter, our second fiscal quarter.

Michael Rehaut - *JPMorgan - Analyst*

Okay. And I guess, the question is then, to that point, if you switch to this transparent pricing, which I guess would have necessitated a -- more of a drop on the nominal ASP price versus, and trying to reduce the level of incentives, we've heard that pricing has come down in just about all markets across the board, and in reaction to perhaps other more aggressive builders earlier in the quarter, or in the fourth quarter, and so you still this have kind of almost merry-go-round cycle, it seemed that you were able to get some good order flow in relatively weak markets because of that.

How has the quarter played out as you've seen prices fall and people kind of react to maybe your pricing strategy, and if prices continue to fall, at what point are you going to react to that and further lower your own price?

Timothy Eller - *Centex Corporation - Chairman, CEO*

What we're finding, as we've done our neighborhood reviews, is that more and more competitors are moving to a transparent pricing, which is how the business is normally run in normal times. So it's a natural progression as part of the recovery. And so we would expect that to continue.

And frankly, we're finding, as we've done in the past, starting back in August when the mortgage liquidity crisis really started to hit, we're really just focused on pricing to the levels that our customers can afford. So it's a pretty scientific approach, and we tend not to react to what somebody else may do because we know how we should price.

Michael Rehaut - *JPMorgan - Analyst*

Okay, and just one more question. I think this was brought up earlier, but I was hoping we could get some more clarity. The impact of the 2,500 spec homes sold and closed during the quarter, can you give us a rough idea of what that had as an impact to the gross margins?

Cathy Smith - *Centex Corporation - CFO*

Yes, roughly, I can give you a rough ball park. It's probably somewhere in the 300 to 400 basis point range.

Michael Rehaut - *JPMorgan - Analyst*

Okay, and that's very helpful. I appreciate that Cathy.

Was wondering if you can also give us a sense of would the benefit from homes that were sold in the quarter that were previously impaired. Some people have called it like a reversal, but from prior impairments, what that contributed to the gross margin?

Cathy Smith - *Centex Corporation - CFO*

Let me -- Matt is going to grab that you number. We don't -- we can give you the number of closings. That's really the best we can do any more. It's kind of becoming more and more difficult to say what the reversals were.

Matt Moyer - *Centex Corporation - VP, Investor Relations*

Mike, we had 2,305 homes that were closed this quarter from previously impaired neighborhoods.

Operator

Your next question comes from the line of Alex Barron with Agency Trading.

Alex Barron - *Agency Trading - Analyst*

Yes, thanks, good morning. I guess I wanted to focus a little bit on your strategy. I guess you guys are moving more towards this build to order model. I'm just wondering, how are you finding it, as far as competing against the other builders who continue to spec build?

And I guess what's the competitive value -- what's the value, I guess that a buyer gets from waiting four to six months for a home versus buying one that's off the shelf from somebody else?

Timothy Eller - *Centex Corporation - Chairman, CEO*

There are some buyers that are bargain hunters that are looking for a deal, and they can go find those deals, I'm sure, somewhere. What we're offering is the experience of building a home, and we find that that generally has greater value for us, higher margins for us, more satisfied customers for us. So those are the buyers we choose to want to focus on.

Alex Barron - *Agency Trading - Analyst*

Okay. Got it. Now, as far as, I was trying to also understand your comment about the cash neutral and how that relates back to your margins at the moment.

So your margins I guess were fairly low, and I guess some of that came from the impact of selling these specs. So going forward, I guess it sounds like you guys are expecting the margins to trend back up.

Is that kind of in the next quarter or two, or are we talking like a year from now? When would you say that you expect the margins to start improving?

Cathy Smith - *Centex Corporation - CFO*

Throughout the course of the year you will see margins trend up, and as I talked about, we're doing a lot to improve our profitability. We have been for sometime, we've made great progress on that, but we're still doing a tremendous amount inside the Company with our business process improvement moving to a presold model, continuing to stress our reductions in overhead. All of those things will continue to show dividends this next year.

Timothy Eller - *Centex Corporation - Chairman, CEO*

So our costs, Alex, should continue to go down. What's really unknown is the sales prices. While we're not trying to compete and don't try to compete with foreclosures, the credit markets are continuing to tighten.

Credit underwriting standards are continuing to tighten. So as we focus on what's necessary to qualify our buyers, there may still continue to be pressure on prices from just the credit side. Again, I think we believe most of that is behind us. And much less in front of us.

Alex Barron - *Agency Trading - Analyst*

Right. One last question. What was the loss or gain on the sale of the pest control?

Cathy Smith - *Centex Corporation - CFO*

Just a second. Mark?

Mark Kemp - *Centex Corporation - SVP, Controller*

On a net of tax basis, it will be in the $30 million to $35 million range.

Timothy Eller - *Centex Corporation - Chairman, CEO*

Gain. That's a gain.

Mark Kemp - *Centex Corporation - SVP, Controller*

Yes.

Operator

Your next question comes from the line of Susan Berliner with Bear Stearns.

Susan Berliner - *Bear Stearns - Analyst*

Hi, good morning. Cathy, I was wondering if you can help with us the $1 billion of cash as of the end of June 30 considering it's going to be a cash flow neutral quarter? If you can walk us through to how you get to the just over $1 billion?

Cathy Smith - *Centex Corporation - CFO*

Yes, it's really, take our cash balance at the end of our fiscal year, 3/31, and then we have a substantial tax refund expected this quarter, which is $600 million. We had the proceeds of our Pest Defense business, and then the difference in that versus we said we should exceed a billion dollars is just given the uncertainty in this environment.

Susan Berliner - *Bear Stearns - Analyst*

Okay, so it could be closer to the $1.2 billion than the $1 billion?

Cathy Smith - *Centex Corporation - CFO*

It's possible.

Susan Berliner - *Bear Stearns - Analyst*

Okay, and then, secondly, on the share of the joint venture debt, it looks like it went down about over $62 million this quarter. Can you say, I guess, which component of the joint venture debt went down, meaning completion guarantees, limited maintenance, et cetera?

Cathy Smith - *Centex Corporation - CFO*

Just a second. Matt is going to look for you there. But as you know we continue to focus on trying to reduce our exposure, although it's not very large in JVs.

Matt Moyer - *Centex Corporation - VP, Investor Relations*

Sue, it will be in the K, which we will be filing soon, but the biggest reduction was in limited maintenance guarantee. They're actually -- there was actually increase in no recourse or guarantee, but in all the numbers changed a little bit back and north.

Operator

Your next question comes from the line of Timothy Jones with Wassermann & Associates.

Timothy Jones - *Wasserman & Associates - Analyst*

Good morning. Two questions. First question is, you talked about having the best closings per employee for the nine years. I'd like to get your total employees for this year versus last year, and the proportion and the number that are related to home building.

Timothy Eller - *Centex Corporation - Chairman, CEO*

Again, Matt is looking it up, but we're down in home building about 50% from the peak. The total is less relevant, Tim, because we've sold so many businesses.

Cathy Smith - *Centex Corporation - CFO*

it's really focused on home building.

Timothy Jones - *Wasserman & Associates - Analyst*

Home building for sure.

Timothy Eller - *Centex Corporation - Chairman, CEO*

While they're looking that up, what's your second question?

Timothy Jones - *Wasserman & Associates - Analyst*

Okay. I don't think you gave the exact numbers for your homes under construction for this year and last year, and the proportion of unfinished specs and finished specs.

Matt Moyer - *Centex Corporation - VP, Investor Relations*

I've got that, Tim. Homes under construction right now are, including model homes, are 7,324. That's down from 13,301 a year ago. We have 1,754 total unsold units, of which 668 are over 180 days old. For your employees, at Centex Homes, we're 3,910 versus 6,164 a year ago.

Timothy Eller - *Centex Corporation - Chairman, CEO*

And peak was over 8,000.

Matt Moyer - *Centex Corporation - VP, Investor Relations*

Right.

Mark Kemp - *Centex Corporation - SVP, Controller*

Close to 8,600.

Operator

Your next question comes from the line of Jay McCanless with FTN Midwest.

Jay McCanless - *FTN Midwest Securities - Analyst*

Hey, good morning.

Cathy Smith - *Centex Corporation - CFO*

Good morning.

Jay McCanless - *FTN Midwest Securities - Analyst*

Sticking with the gross margin questions, could you all give me what the ex impairment gross margin would have been this quarter?

Matt Moyer - *Centex Corporation - VP, Investor Relations*

The impairment is not in that number, so 7.7 is the number.

Jay McCanless - *FTN Midwest Securities - Analyst*

Then that 300 to 400 basis points you were talking about on the specs, that was -- so basically you're getting back to 11% to 12% gross margin on non-spec units?

Cathy Smith - *Centex Corporation - CFO*

Again, remember that a large portion of those homes closed in our fourth quarter also had older material and labor costs included in them.

Jay McCanless - *FTN Midwest Securities - Analyst*

Right. Sticking on the gross margin, kind of a two-part question. First, are you including any estimate of increased raw materials cost and building materials cost in sort of, I think, your positive outlook for '09 gross margins?

Then also, how do I square your positive outlook, I think, for gross margins versus what I think is a much more conservative approach to future profitability that I think we're seeing in the valuation allowance on the deferred taxes? If you could square those two up for me I'd certainly appreciate it?

Cathy Smith - *Centex Corporation - CFO*

I'm not sure I quite get your comment around the valuation allowance. So right now, and maybe I can help explain, we set up a deferred tax asset, and we would recognize that deferred tax asset as we transact the land or the lots associated with that when we have an impairment. That's largely the bulk of that.

For right now, because of the uncertainty and lack of predictability in the industry, we've chosen to reserve $830 million of that deferred tax asset. As we turn to profitability, and see a good -- when we start seeing stability out in front of us we would expect that to come back to income. But I'm not sure that I'm answering your question.

Timothy Eller - *Centex Corporation - Chairman, CEO*

Let me just comment on the construction costs. What we're seeing is continued reduction in overall direct construction costs. We certainly do have some materials that are going up, but overall direct construction costs are continuing to come down on a per house basis. And we're finding that our mix of houses is changing a bit, too, to generally the more affordable house types.

Operator

Your next question comes from the line of Jim Wilson with JMP Securities.

James Wilson - *JMP Securities - Analyst*

Thanks. Good morning.

Timothy Eller - *Centex Corporation - Chairman, CEO*

Good morning.

James Wilson - *JMP Securities - Analyst*

I guess the two questions, one is, and maybe I missed it earlier. I missed the first couple minutes of the call. But cash flow component, most significantly inventory reduction, but I was wondering if you could break down the cash flow components for the quarter?

Then the second one is, really as it relates to sales pace per community, and I know we don't really have community counts right now, but was wondering if you could at least color it, how it looked differently by region or anything of note you'd want to express about the various markets out there on a subdivision basis?

Cathy Smith - *Centex Corporation - CFO*

Yes, the biggest element of the cash flow generation is the reduction in working cap, or the reduction in inventories. And then with regards to the -- I'm sorry, the latter part of your question?

Timothy Eller - *Centex Corporation - Chairman, CEO*

Sales per neighborhood.

Cathy Smith - *Centex Corporation - CFO*

Oh, yes, we were up 43 per neighborhood this last year, which was really much better than kind of the minimum level threshold we set for ourselves at 36 sales per neighborhood per year which would have been about three sales per neighborhood per month. And so we did exceed that this last year at 43.

James Wilson - *JMP Securities - Analyst*

I was much more interested in the recent trends in the quarter and if you could differentiate, however you want to do it, by number, a good, better, worst, or something by region.

Timothy Eller - *Centex Corporation - Chairman, CEO*

Cathy did cover that in her comments on the regional color. I'll just give you my flavor for it. The most negatively impacted markets today from a foreclosure standpoint are the Southwest, which are Inland Empire, Las Vegas, and Phoenix. So those are feeling really intense pressure from foreclosures.

Second, of course, would be Florida, particularly southeast Florida are feeling pressure from foreclosures and to some extent Orlando. Interestingly -- and Tampa. Interestingly, we had very good sales on a relative basis in southwest Florida, particularly in Naples. That's a very discretionary buyer. They don't really -- they don't need to qualify for a loan because it's an affluent buyer.

It's a second home buyer typically, so the combination of the rough winter in the North and buyers sensing that perhaps we're close to the bottom, at least in that market, allowed us to have very good sales success there. Also interestingly, Indianapolis was a very good market for us for sales, largely because there is so little competition left.

To a previous question, while the market isn't improving necessarily, there's a lot less capacity, and so our sales -- in fact, we presold most of our houses in Indianapolis last quarter.

Matt Moyer - *Centex Corporation - VP, Investor Relations*

Throughout the quarter, it was pretty steady. Every month had more than three sales per month. So no real trend to decipher through the quarter.

James Wilson - *JMP Securities - Analyst*

Okay, great. Thanks.

Operator

Your next question comes from the line of Randy Raisman with Durham Asset.

Randy Raisman - *Durham Asset Management - Analyst*

Hi, how are you doing? Just a few quick questions. First, just was wondering where you are relative to the minimum tangible net worth covenant now under the revised terms? And then just a couple follow-ups after that.

Cathy Smith - *Centex Corporation - CFO*

We did revise our credit agreement this last quarter and we do have sufficient room there.

Randy Raisman - *Durham Asset Management - Analyst*

How big is the cushion now?

Cathy Smith - *Centex Corporation - CFO*

It's north of $600 million, $700 million.

Randy Raisman - *Durham Asset Management - Analyst*

Okay, and then the other question was just getting back to a comment you guys made earlier about being in a position to buy land later in the year from banks. Just want to kind of understand what type of pricing and valuation assumptions you're making there, just given -- how much cheaper do you think the land gets versus where you -- relative to the transaction you guys just completed or some of these other transactions we're seeing in the market now?

Timothy Eller - *Centex Corporation - Chairman, CEO*

Well, land is residual of the sales price, so we just start with the sales price of the home, subtract our costs, determine our hurdle rates in terms of profitability and what's left it is what we can pay for the lot or the land. So that's the process. It's always been the process. So land has corrected -- will need to correct considerably.

And that's the issue right now. It's not that we're not in a position to buy. We're in a position to buy today. In fact, there are some transactions today, and we are acquiring land and lot positions, particularly lot positions today. All lots on structured take-downs really.

But there just isn't very much supply in the market because it's locked up in the banks, or will be locked up in the banks. So when I said last half of this year, I think that's when the banks will begin to put the land to the market, and it's happening already in some places, but the valuations aren't yet there, and so the process is the banks will put the properties to the market, and over time they will find the right valuations.

Randy Raisman - *Durham Asset Management - Analyst*

If land values flow off of prices, how do we reconcile further price reductions than versus your commentary that you think the price reductions are behind you and that margins are going to go up? It just doesn't add up.

Timothy Eller - *Centex Corporation - Chairman, CEO*

Well, what I said was, I think the bulk of the pricing declines are behind us. There could still be pricing pressure in the future, particularly if credit continues to tighten in -- on mortgage products.

And so that's been the issue for us, is to be able to qualify our customers. And so we'll continue to watch that. But we're not going to chase foreclosures. And the other part of your question was?

Randy Raisman - *Durham Asset Management - Analyst*

Just how that reconciles with margins going up.

Timothy Eller - *Centex Corporation - Chairman, CEO*

Well, two things. So, Cathy mentioned that we have higher margins on presold houses. We don't have to discount on presold houses. In fact, we've moved to transparent pricing to pre-sell houses. Part of it is price.

We're finding our direct construction costs are continuing to go down. So as we look out into the future, we'll have a lower cost base, and we're focusing on reducing and continuing to reduce our SG&A. So it's a combination of moving to a presold model as well as realizing cost reductions in the future.

Randy Raisman - *Durham Asset Management - Analyst*

Thank you.

Timothy Eller - *Centex Corporation - Chairman, CEO*

The caveat is that we don't continue to have price declines, but we could, certainly could in the future as well.

Randy Raisman - *Durham Asset Management - Analyst*

Great. Thanks.

Operator

We have reached the end of our allotted time for questions. I will now turn the call over to Tim Eller for his closing remarks.

Timothy Eller - *Centex Corporation - Chairman, CEO*

Thanks, Janice. I want to thank all of you for joining us today. We look forward to discussing our progress during our first quarter conference call later this summer.

Operator

This concludes Centex fiscal year 2008 fourth quarter earnings conference call. Thank you for your participation.